The E’s of Sustainable Economic Development

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Community energy --The economy is the lifeblood of a community. It is how people in a community create wealth, earn a living, and can afford to have the things that are important to them in life. -Larry Dickerson, University of Missouri

Having the kind of economy that creates supports and sustains community health is most important. Creating economic activities that destroy or weaken other parts of the web may do more harm than good in the long run. Industrial development may not be a good source of energy for communities which want an agrarian lifestyle. Community economies should fit in the web of a community. Community economies should provide appropriate sustainable energy for a community.

Considerations for Economic Development

- Community Economic Development does not take place in a vacuum. It must be looked at in relation to the web and all the effects it might have.
- Community Economic Development should be viewed as a process that preserves the good and improves the less good. Improving on community health should be the focus.
- Community Economic Development does not require growth in the conventional sense. Improving an economic sector, capturing more of a market, keeping dollars at home, and using resources more wisely can improve an economy and community just as much as conventional economic growth strategies.
- Changes in a community economy are the result of many forces and do not happen overnight. There are no “miracles on Main Street”. Things did not deteriorate overnight and will not improve overnight. Understanding the structural and cyclical processes that have led to economic changes is important to community and economic health and maintaining a vibrant community economy.
• **A community can have 50 different 2% solutions – not just one 100% solution.** As the old adage says, it is not wise to put all your eggs in one basket. Diversification and sustainability should be the desired outcomes, not one big solution.

• **Community economies go through cycles of birth and death too – look at what sectors are growing and those that are dying.** It is not wise to hang onto an economic development strategy whose time is past, and it is wise to be on the leading edge of new economic trends. It is better to have economic development strategies that are on the birth cycle rather than those on their death bed.

• **Community Economic Development must look at all the consequences.** This was mentioned above and is critical to choosing economic development strategies that fit a community and enhance community health and the web, not weaken it.

Exercise: Ask attendees to pair off, ideally with someone they don’t know, and spend a few minutes discussing this question: **How do you define economic development?**

Have the teams share their responses. Use a flip chart to record key themes.

Economic development must also be understood from the context of benefit — who will (should) benefit from the efforts? Is the goal to generate new employment? If so, how is that employment defined — e.g., must employers pay at least the prevailing wage for the industry? What about benefits, such as health care, for the employees?

Today, defining economic development is much more complicated. Many still hold to the traditional approach of external business, usually industrial, attraction, but contemporary economic development also includes local business retention and expansion, emerging technologies, retail fit, small business development, entrepreneurship as well as tourism, local foods, arts and crafts and festivals.

In addition, workforce skills and education are a key consideration. Many of today’s businesses rely on the skills and knowledge of their employees rather than their brawn. This means that the education system (K-16) has become one of the new location factors.

Communities can’t rationally attempt to undertake all the approaches, so how does a community select the approach(es) that fit the needs of the community and its residents? One important first step is for the community to redefine “economic development” as “community economic development.” This requires a broader approach and understanding of the community, the factors that currently do, and potentially could, drive the local economy and suggests that development is approached through the lens of benefiting the entire community. In addition, communities need to move toward a regional approach to economic development.
Setting Economic Goals
A community must have economic goals that fit within its overall web and community development goals and strategies. John Tharp of the University of Missouri Extension discusses community economic development goals in the context of basic principles. These are:

- Sustainability
- Stability
- Equity
- Growth

Possible Specific Goals/Means
- Expand the economic base
  - Diversify it
  - Bring in more dollars from outside
- Increase efficiency of local resource use
- Increase proportion of money spent locally
- Protect economy from cyclical and seasonal swings
- Increase the number of jobs
- Raise personal income levels
- Increase local business ownership

The Leaky Bucket
Jerry Wade of the University of Missouri developed a community economic development workshop to help communities understand and build upon their economy. Using an old bucket, he would demonstrate how a local economy operates. He would hold the bucket up and show that:

- **Money Flows Into the Bucket**
  - He would ask community members how money flows into their community.
  - Common answers were: government, visitors, people who buy things, resources exported out of the community, things manufactured in the community, and other items specific to a particular community.

  He would then demonstrate how:

- **Money Circulates in the Bucket**
  - He would do this by explaining the multiplier effect, or how many times one dollar is spent in a community. A person gets paid and spends it at a store; the store buys inventory from a local producer, and the local producer pays his employee, and so on. This lets money circulate in the bucket and be spent many times within a community, creating more employment and income.

But the bucket leaks, and so does the economy of every community, so

- **Money Flows Out of the Bucket**
  - This means money leaves the local economy and goes elsewhere and therefore needs to be replenished on a regular basis. The question is asked, how and where does money leak out? Some common answers are: cars, clothing, energy, food, tools, all kinds of manufactured products.
goods, workers who live elsewhere, businesses owned outside the community, building materials, and so on.

So how does a community **BUILD ITS ECONOMY?** This can be done in three basic ways

1. **Increasing The Flow of Money Into The Bucket.** Find new ways to bring money
2. **Circulating The Money More Times While It Is In The Bucket.** Find ways to keep money longer in your community.
3. **Plug The Leaks In The Bucket.** Produce more of what you buy locally.

This model has helped many communities understand their community better and create appropriate economic development strategies for their community.

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**THE LEAKY BUCKET**

Money flows into the bucket

(Economic base)

Money circulates in the bucket (Multiplier)

Money leaks out of the bucket (Reduce Multiplier)

**How Your Economy Works**

Another way to look at your economy is through **ECONOMIC BASE ANALYSIS.** This is a methodology that looks at the sources of employment and income in a community. This can paint a good picture of what is actually taking place in a community economy and not what we think may be happening. Many times we do not really know where the major sources of employment and income are coming from in a community.

Government transfer payments, retirees’ income, and other less visible aspects of the economy may play a much larger role than one sees.

Developing economic development strategies that may affect these important, and often largest, income sources may do more harm than good to a local economy.

**Sources of Income**

- How does money come into your community?
- Where does it come from – what are the specific sources – earned and unearned?
• Who gets the money?
• How much gets spent in your community?
• How much gets invested in your community?
• How else might people make a living?

This will give you a picture of your local economy.

Sources of Employment
• Who are the employers in your community?
• What are the jobs each employer has?
• Who has those jobs?
• What is the wage for each job?
• Who has jobs outside the community?
• Are their wages brought back to your community?

Sources of Income
Unearned income (not from labor)
• Dividends, interest and rent
• Social Security
• Veterans’ benefits, etc.

Earned income (from labor — wages, salaries, profits)
• Subsistence (produce but do not sell, hunting, fishing, gathering)
• Natural Resource Development
• Manufacturing
• Construction
• Transportation
• Utilities
• Trades
• Finance and Insurance
• Services
• Farm earnings
• Wholesale Trade
• Retail Trade
• Information
• Real Estate
• Management and Administration
• Education
• Health Care & Social Services
• Arts, Entertainment and Recreation
• Professional Services
• Accommodation and Food Services
• Government
### Variables Influencing Employment and Income

<table>
<thead>
<tr>
<th>Variables</th>
<th>Positive</th>
<th>Negative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Migration of Employers</td>
<td>Firms move into an area</td>
<td>Firms move out of an area</td>
</tr>
<tr>
<td>Change Firm size</td>
<td>Expansion of employees</td>
<td>Contraction employee</td>
</tr>
<tr>
<td>Births or deaths of firms</td>
<td>Firms are started</td>
<td>Firms die</td>
</tr>
<tr>
<td>Location of private</td>
<td>Goods and services</td>
<td>Goods / services purchased outside area</td>
</tr>
<tr>
<td></td>
<td>purchased locally</td>
<td></td>
</tr>
<tr>
<td>Public expenditures</td>
<td>Made inside area</td>
<td>Tax payments sent out of area</td>
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### Economic Opportunities Discovery Process

A three-step interactive process to look at a community’s economic opportunities based upon local resources to help identify local business opportunities, potential community projects, and local economic strategies.

**Step 1: Four Questions – Small groups – brainstorm and report back**

1. What resources do you have that you can use for economic development?
2. What do you currently export out of your community?
3. What products and services do you currently import into your community?
4. What products and services do you produce locally?

**Step 2: Four Questions – Small groups – brainstorm and report back**

5. How could you use your resources more economically and effectively for economic development?
6. How could you create more exports out of your community?
7. What could you produce locally that you currently import?
8. How could you add more value to what you currently produce?

**Step 3: Based on above results, develop strategies – Small or large group**

9. What opportunities for economic development strategies are viable for your community?
10. What community projects could be initiated to start implementing the above strategies?
11. What small business opportunities are there to take advantage of your identified economic development strategies?

### References


Dickerson, Adams, Flora, Gulick, Jeanetta, Nakazawa *Building A Strong Community*; University of Alaska Fairbanks Cooperative Extension, Forthcoming Fall 2013.